



REPLY TO
ATTENTION OF

**DEPARTMENT OF THE ARMY
OFFICE OF THE ASSISTANT SECRETARY
FINANCIAL MANAGEMENT AND COMPTROLLER
109 ARMY PENTAGON
WASHINGTON DC 20310-0109**

19 JAN 2001

MEMORANDUM FOR SEE DISTRIBUTION

SUBJECT: New Army Credit Policy

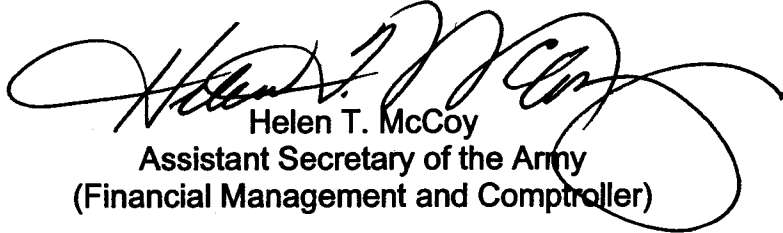
I am writing to inform you of the new Army Credit Policy (Enclosure 1) effective with the transition to a Single Stock Fund (SSF) in FY01. The many professionals who have expended substantial effort to streamline and improve financial and logistic systems processes are commended for their contribution to SSF and the new credit policy. Our objective has been to make credit simple, stable, predictable and based on national need. At the same time, we strive both to maintain the fiscal solvency of the Army Working Capital Fund (AWCF) and to provide spare parts to the customer of the lowest feasible price. This policy accomplishes these objectives as an integral component of the SSF.

Details of the new policy are at enclosure. Under the new policy, credit is developed on an item-by-item basis, dependent upon national need for each item. Separate credit amounts are developed for items returned in serviceable and unserviceable condition. National Stock Number (NSN) price and credit are key elements of the Training Resource Model (TRM) cost factor development that drives OPTEMPO funding requirements. The credit rates are locked each fiscal year based on the President's Budget for that year. Locking credit at the NSN level throughout the year of execution ensures customer buying power stability.

This policy will be in effect through FY03. Beginning in FY04 we plan to decouple credit from use in pricing and cost factor development. More specifically, we plan to establish an exchange price system for Army managed reparable items. The exchange price is based on the sale of a used item and finances the repair, washouts/attrition rates (percentage of items that cannot be repaired), and surcharges. This accomplishes the same net price as with credit, but will reduce transactions and eliminate the preoccupation with credit. Accomplishment of this task will require deliberate planning, coordination, and numerous system changes. My staff will initiate these efforts within the next year with the goal of implementing the change in the FY 04 POM / Budget.



My points of contact for this information are Lee G. Ramsey III, SAFM-BUR-S, DSN 227-3122, Lee.Ramsey@hqda.army.mil and Dick Anderson, DSN 227-3122, Richard.Anderson@hqda.army.mil.



Helen T. McCoy
Assistant Secretary of the Army
(Financial Management and Comptroller)

Enclosure

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ROOM 113, NATICK, MA 01760-5052

DIRECTOR,
ARMAMENT AND CHEMICAL ACQUISITION AND LOGISTICS ACTIVITY,
ATTN: AMSTA-N-AC-NCPP, BUILDING 108, FLOOR 2, ROCK ISLAND
ARSENAL, ROCK ISLAND, IL 61299-7630
DEFENSE FINANCE AND ACCOUNTING SERVICE, ATTN: DFAS-IN/AASE,
INDIANAPOLIS CENTER, INDIANAPOLIS, IN 46249 PROGRAM MANAGER,
OFFICE OF THE DEPUTY CHIEF OF STAFF FOR
LOGISTICS, ATTN: DALO-SSF, 500 ARMY PENTAGON,
WASHINGTON, DC 20310-0500

New Army Credit Policy

The Army Master Database File (AMDF)/FEDLOG will contain three different dollar values for each NSN provided by Supply Management, Army (SMA): the standard price, credit allowed for and unserviceable credit allowed. If the Army determines a national need for an Army Managed Item (AMI) within the maximum retention level for that year, it will provide one level of credit for serviceable returns and another level for unserviceable returns. The AMDF/FEDLOG credit for serviceable returns will be the standard price minus the applicable surcharge. The credit for an unserviceable return will be the standard price minus the applicable surcharge, minus the washout rate and minus the repair cost. If an item cannot be purchased by the Army, but only repaired, then no washout costs will be considered in unserviceable credit calculation. If a turn-in is classified as uneconomical to repair, it will receive zero credit. Otherwise, based upon the serviceability of the NSN being returned, the AMDF/FEDLOG will indicate exactly how much credit will be given for the item. Credit will be locked at the time of the President's Budget for the applicable year. Credit will not be changed during the year of execution unless the OASA(FM&C) so directs.

The Army is quickly divesting itself of pure consumable items. However, the credit policy must consider these items. Three-percent credit is given to serviceable non-Army managed weapon system related items for which the Army has had a demand in the previous 36-month period. Unserviceable pure consumable items will receive zero credit. Non-Army managed items (NAMI) that are Field Level Repairables (FLRs) will receive zero credit if unserviceable. An exception to this would be for a limited number of specific NSNs that are in transition from NAMI to AMI, for which credit has been budgeted and posted to AMDF/FEDLOG.

The table below portrays the information contained above:

| | | Pure Consumable Item | | Field Level Repairable | | Depot Level Repairable | |
|------------------|------------------------------|--|---------------|------------------------|----------------|------------------------|----------------|
| | | Serviceable | Unserviceable | Serviceable | Unserviceable | Serviceable | Unserviceable |
| Army Managed | | | | | | | |
| | Needed | Std Pr - Sur | 0 | Std Pr - Sur | ~ Std Pr - LRC | Std Pr - Sur | ~ Std Pr - LRC |
| | Not Needed | 0 | 0 | 0 | 0 | 0 | 0 |
| Non-Army Managed | | | | | | | |
| | Weapon system related-Needed | 3% | 0 | 3% | 0 | NA | NA |
| | Not Needed | 3% | 0 | 3% | 0 | NA | NA |
| | | | | | | | |
| | | Std Pr = Standard Price (AMDF Price) | | | | | |
| | | Sur = Surcharge | | | | | |
| | | ~LRC = Latest Repair Cost (Cost to repair at General Support and/or Depot) | | | | | |
| | | In this Table, LRC has already deducted surcharge and washout | | | | | |

Encl